ARTER & HADDEN LLP
ATTORNEYS AT LAW
founded 1843
1801 K Street, N.W., Suite 400K
Washington, D.C. 20006-1301
telephone 202.775.7100
facsimile 202.857.0172

Austin
Cleveland
Columbus
Dallas
Dayton
Irvine
Los Angeles
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San Antonio
San Diego
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ex parte

April 14, 2000

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20054

Re: CC Docket Nos. 94-1, 96-45, 99-249, and 96-202

Dear Ms. Salas:

On April 14, 2000, the attached *ex parte* submission of Iowa Telecommunications Services, Inc. ("Iowa Telecom") was sent to the Chairman William Kennard, Commissioner Susan Ness, Commissioner Michael Powell, Commissioner Harold Furchgott-Roth, and Commissioner Gloria Tristani, as well as to Lawrence Strickling, Jane Jackson, Lenworth Smith and Judith Nitsche from the Common Carrier Bureau, in connection with the above-referenced proceedings.

Enclosed are four copies of this letter and the *ex parte* submission for inclusion in the record in each of these proceedings. Acknowledgment and date of receipt of this letter are requested. A duplicate letter is attached for this purpose.

Very truly yours,

Arter & Hadden LLP
by James U. Troup

Enclosure

cc: Chairman William Kennard, Commissioner Susan Ness, Commissioner Michael Powell, Commissioner Harold Furchgott-Roth, Commissioner Gloria Tristani, Lawrence Strickling, Jane Jackson, Lenworth Smith and Judith Nitsche

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Low-Volume Long Distance Users	)	CC Docket No. 99-249
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	

EX PARTE SUBMISSION OF IOWA TELECOM

Iowa Telecommunications Services, Inc. ("Iowa Telecom"), by its attorneys, respectfully makes the following *ex parte* submission concerning the "Memorandum in Support of the Revised Plan of The Coalition for Affordable Local and Long Distance Service ("CALLS"), and related documents filed March 8, 2000 ("Revised CALLS Proposal").

Iowa Telecom is a newly formed telecommunications company that will soon acquire the entire operations of GTE of the Midwest, Inc. ("GTE") within the state of Iowa. Upon receipt of all necessary regulatory approvals and after closing the transaction with GTE, Iowa Telecom will provide telecommunications services to customers served by approximately 280,400 access lines spread throughout Iowa, in 296 individual exchanges.[1]

[1] Iowa Telecom's operations will be very rural in nature. It will serve only two cities with populations that exceed 10,000: Newton (15,371) and Fairfield (10,332), based on the U.S. Bureau of the Census' July 1, 1998 population

Iowa Telecom plans, at the present time, to operate under price cap regulation for its interstate operations. As Iowa Telecom stated in its January 7, 2000 comments filed with the FCC, in response to Public Notice FCC 99-345: "Price cap regulation appears to be a superior form of regulation than traditional rate-of-return regulation from an economic perspective – it guarantees IXCs access charge price reductions in real terms and provides LECs with the ability to earn higher profits by becoming more efficient." Iowa Telecom is, however, concerned that the Revised CALLS Proposal would likely have a severely negative financial impact on Iowa Telecom, which, in turn, would surely jeopardize its ability to serve much of rural Iowa with high-quality basic and advanced telecommunications services. Therefore, Iowa Telecom vehemently opposes any mandatory application of the Revised CALLS Proposal to all price cap LECs, regardless of their size or the rural nature of their service territories.

The extremely rural nature of Iowa Telecom's service territory can be seen by comparing it to the purchase of GTE of the Southwest, Inc.'s ("GTE-SW") rural exchanges by Valor Telecommunications Southwest, L.L.C. ("Valor"). In its April 3, 2000 comments filed in this proceeding, Valor stated that, after closing its transactions with GTE-SW, Valor would serve approximately 520,000 access lines in 260 exchanges in New Mexico, Oklahoma, and Texas.[2] These statistics demonstrate that Valor is a truly rural telephone company since its average exchange serves only 2,000 access lines. However, as the Federal Communications Commission ("FCC") can clearly observe – Valor's "customer mass" (access lines per central office) is more than twice that of Iowa Telecom. Iowa Telecom's average exchange serves a mere 947.3 access

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estimates. Pursuant to Section 3(37)(D) of the Communications Act of 1934, as amended ("Act") (47 U.S.C. § 153(37)(D)), Iowa Telecom will qualify for a rural telephone company exemption to the interconnection and resale requirements of Section 251(c) of the Act, 47 U.S.C. §251(c).

[2] Valor Comments at 2.

lines. Using Valor's calculation of the Regional Bell Operating Companies' ("RBOC") average access lines per central office of 10,853,[3] the RBOCs' "average customer mass" is more than 11 times greater than Iowa Telecom's. These facts simply do not support the rote application of the Revised CALLS Proposal to small and rural price cap LECs.

The record demonstrates that the Revised CALLS Proposal was designed for the United States' metropolitan markets. The CALLS supporters have, indeed, made rather convincing arguments that the current interstate access charge rate structure does not adequately address the needs of these large markets and should, therefore, be changed. Accordingly, Iowa Telecom believes that the FCC should permit the Revised CALLS Proposal to take effect for those local exchange carriers ("LECs") that serve these large metropolitan markets.

However, the FCC must also keep in mind that a regulatory framework designed for Charlotte, NC, Knoxville, TN, Toledo, OH, and Washington, D.C. is not likely to produce the same results in Charlotte, Iowa, Knoxville, Iowa, Toledo, Iowa and Washington, Iowa – communities that will be served by Iowa Telecom. While these communities all share common names, the resemblance ends there since the latter communities are higher-cost, lower customer density rural exchanges, rather than lower-cost metropolitan areas. The FCC must not impose the Revised CALLS Proposal on rural markets, just because they are served by price cap LECs.

Citizens Utilities Company ("Citizens") and Valor have both raised[4] serious concerns about the $0.0065 per-minute, "target switched access charge" for all price cap LECs (except for the RBOCs and GTE), which would occur under the Revised CALLS Proposal. Iowa Telecom shares those concerns. Citizens and Valor have shown that they do not have the economies of

[3] *Id.* at 7.

[4] Citizens Comments at 4 *et seq*; Valor Comments at 3-4.

scale or customer mass of Sprint, for which the $0.0065 per-minute rate seems to have been designed. This lack of parity in economic scale when coupled with a very low rate for switched access charges would create serious financial difficulties for Valor. And, as Valor will have a customer mass that is more than twice as great as Iowa Telecom's, it only stands to reason that this same rate would likely wreck economic havoc on Iowa Telecom and its customers. The Revised CALLS Proposal is not adequate for application to small and rural price cap LECs.

Similarly, Iowa Telecom agrees with Valor that the Revised CALLS Proposal is flawed because it "freezes the regulatory status of all price cap access lines as of the date the plan goes into effect regardless of what type of carrier may eventually buy those lines."[5] This result is not in the public interest. It is clear that changed market conditions are driving the largest LECs from many rural markets. Moreover, there is nothing to suggest that this trend will not continue. Metropolitan markets are very different than rural ones and rural markets are more costly and difficult to serve than metropolitan ones, such that each type of market requires a different type of rate structure analysis.

This market development (exit of the large LECs from rural markets) is not a negative one by any means, as it is bringing better-positioned suppliers to rural markets. Indeed, the FCC and state public utility commissions ("PUCs") should be cheered by the huge financial commitments being made to rural markets by both new and existing carriers, such as Iowa Telecom, Valor, and Citizens. This trend must be encouraged by the FCC and PUCs alike. However, freezing the regulatory status of the large price cap LECs' access lines would likely end the creation and development of small to mid-sized LECs in rural markets and leave price cap regulation to all but the behemoths. That is not a sound result.

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[5] Valor Comments at 4-5.

Iowa Telecom disagrees with the inherent assumption in the Revised CALLS Proposal – that end user customers must pay the entire cost of their common line, except for any amounts that are recovered from universal service support. This assumption contradicts sound market economic principles. Terminating access service to common lines has a market value for interexchange carriers. Moreover, that market value increases as LECs add access lines and end user customers. While its is clear, for example, that more interexchange callers need or want to reach Charlotte, NC than need or want to reach Charlotte, Iowa, few, if any, callers would want to subscribe to an interexchange service that would not permit them to call persons living in Charlotte, Iowa, Knoxville, Iowa, Toledo, Iowa and Washington, Iowa. Business and residential customers alike want, indeed demand, ubiquitous long distance service from their carriers. In a purely competitive market, suppliers are not prohibited from charging their customers for the value of the products or services provided. Yet, the FCC has been relentlessly pursuing regulatory policies that are designed to prevent LECs from charging interexchange carriers any price whatsoever for that value. This result is not sensible.

Iowa Telecom is not advocating herein that the FCC permit LECs to "gouge" IXCs for terminating access service. Rates for terminating access service are clearly subject to the requirement of Section 201(b) of the Act[6] that all rates must be just and reasonable. However, Section 201(b) clearly does not prohibit the imposition of a reasonable rate to recover from interexchange carriers the value of common lines used to provide terminating access service to interexchange carriers.

[6] 47 U.S.C. §201(b).

Conclusion

For the reasons set forth above, the FCC should permit the Revised CALLS Proposal to take effect on a voluntary basis for all LECs that serve fewer than 2% of the nation's access lines.

Respectfully submitted,

IOWA TELECOMMUNICATIONS SERVICES, INC.

by ______________________

James U. Troup
Robert H. Jackson
Arter & Hadden LLP
1801 K Street, N.W., Suite 400K
Washington, D.C. 20006-1301
Phone: 202-775-7100
Fax: 202-857-0172

Its attorneys

Date: April 14, 2000

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